Primoris Services Corp
Form 10-Q
November 08, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to .

Commission file number 0001-34145

Primoris Services Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	20-4743916 (I.R.S. Employer Identification No.)
2100 McKinney Avenue, Suite 1500 Dallas, Texas (Address of Principal Executive Offices)	75201 (Zip Code)

Registrant's telephone number, including area code: (214) 740-5600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer Do not check if a smaller reporting company.	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At November 7, 2016, 51,784,242 shares of the registrant's common stock, par value $0.0001 per share, were outstanding.

Table of Contents

PRIMORIS SERVICES CORPORATION

INDEX

	Page No.
Part I. Financial Information	
—Condensed Consolidated Balance Sheets at September 30, 2016 (Unaudited) and December 31, 2015	3
—Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015 (Unaudited)	4
— Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 (Unaudited)	5
—Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3. Quantitative and Qualitative Disclosures About Market Risk	41
Item 4. Controls and Procedures	42
Part II. Other Information	
Item 1. Legal Proceedings	43
Item 1A. Risk Factors	43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3. Defaults Upon Senior Securities	43
Item 4. (Removed and Reserved)	43
Item 5. Other Information	44
Item 6. Exhibits	45
Signatures	46

2

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PRIMORIS SERVICES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 148,667	$ 161,122
Customer retention deposits and restricted cash	3,049	2,598
Accounts receivable, net	293,495	320,588
Costs and estimated earnings in excess of billings	156,391	116,455
Inventory and uninstalled contract materials	55,294	67,796
Prepaid expenses and other current assets	16,965	18,265
Total current assets	673,861	686,824
Property and equipment, net	286,886	283,545
Deferred tax asset - long-term	1,075	1,075
Intangible assets, net	31,423	36,438
Goodwill	123,445	124,161
Other long-term assets	2,174	211
Total assets	$ 1,118,864	$ 1,132,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 134,486	$ 124,450
Billings in excess of costs and estimated earnings	98,291	139,875
Accrued expenses and other current liabilities	111,473	93,596
Dividends payable	2,848	2,842
Current portion of capital leases	353	974
Current portion of long-term debt	53,632	54,436
Total current liabilities	401,083	416,173
Long-term capital leases, net of current portion	17	22
Long-term debt, net of current portion	213,790	219,853
Other long-term liabilities	12,790	12,741
Total liabilities	627,680	648,789
Commitments and contingencies		
Stockholders' equity		

Common stock—$.0001 par value; 90,000,000 shares authorized; 51,784,242 and 51,676,140 issued and outstanding at September 30, 2016 and December 31, 2015	5	5
Additional paid-in capital	166,662	163,344
Retained earnings	323,594	319,899
Non-controlling interest	923	217
Total stockholders' equity	491,184	483,465
Total liabilities and stockholders' equity	$ 1,118,864	$ 1,132,254

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

PRIMORIS SERVICES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	$ 507,828	$ 555,945	$ 1,395,085	$ 1,432,270
Cost of revenues	457,699	484,298	1,262,394	1,276,122
Gross profit	50,129	71,647	132,691	156,148
Selling, general and administrative expenses	35,994	38,545	101,150	110,852
Impairment of goodwill	2,716	—	2,716	—
Operating income	11,419	33,102	28,825	45,296
Other income (expense):				
Foreign exchange gain (loss)	(92)	(721)	288	(425)
Other income (expense)	(278)	361	(278)	272
Interest income	31	4	122	22
Interest expense	(2,246)	(1,903)	(6,754)	(5,563)
Income before provision for income taxes	8,834	30,843	22,203	39,602
Provision for income taxes	(4,078)	(11,764)	(9,244)	(15,159)
Net income	$ 4,756	$ 19,079	$ 12,959	$ 24,443
Less net income attributable to noncontrolling interests	(252)	(72)	$ (706)	(126)
Net income attributable to Primoris	$ 4,504	$ 19,007	$ 12,253	$ 24,317
Earnings per share:				
Basic	$ 0.09	$ 0.37	$ 0.24	$ 0.47
Diluted	$ 0.09	$ 0.37	$ 0.24	$ 0.47
Weighted average common shares outstanding:				
Basic	51,780	51,672	51,759	51,637
Diluted	52,034	51,824	51,978	51,789

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

PRIMORIS SERVICES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 12,959	$ 24,443
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	46,430	43,452
Amortization of intangible assets	5,015	5,082
Impairment of goodwill	2,716	—
Gain on sale of property and equipment	(3,361)	(901)
Stock-based compensation expense	1,169	787
Changes in assets and liabilities:		
Customer retention deposits and restricted cash	(451)	(1,583)
Accounts receivable	27,093	(45,968)
Costs and estimated earnings in excess of billings	(39,936)	(47,561)
Other current assets	13,865	(5,453)
Accounts payable	10,036	4,669
Billings in excess of costs and estimated earnings	(41,584)	(14,657)
Contingent earnout liabilities	—	(5,271)
Accrued expenses and other current liabilities	18,580	31,712
Other long-term assets	(1,963)	(2,385)
Other long-term liabilities	49	(3,067)
Net cash provided by (used in) operating activities	50,617	(16,701)
Cash flows from investing activities:		
Purchase of property and equipment	(52,137)	(52,440)
Proceeds from sale of property and equipment	7,763	6,139
Sale of short-term investments	—	30,992
Cash paid for acquisitions	(4,108)	(22,302)
Net cash used in investing activities	(48,482)	(37,611)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	30,000	42,328
Repayment of capital leases	(626)	(1,086)
Repayment of long-term debt	(36,867)	(31,597)
Proceeds from issuance of common stock purchased by management under long-term incentive plan	1,439	1,621

Dividends paid	(8,536)	(6,966)
Cash distribution to non-controlling interest holder	—	(29)
Net cash provided by (used in) financing activities	(14,590)	4,271
Net change in cash and cash equivalents	(12,455)	(50,041)
Cash and cash equivalents at beginning of the period	161,122	139,465
Cash and cash equivalents at end of the period	$ 148,667	$ 89,424

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2016	2015
	(Unaudited)	
Cash paid during the year for:		
Interest	$ 6,654	$ 5,652
Income taxes, net of refunds received	$ 2,079	$ 10,527

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES

	Nine Months Ended September 30,	
	2016	2015
	(Unaudited)	
Dividends declared and not yet paid	$ 2,848	$ 2,842

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

PRIMORIS SERVICES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars In Thousands, Except Share and Per Share Amounts)

(Unaudited)

Note 1—Nature of Business

Organization and operations — Primoris Services Corporation is a holding company of various construction and product engineering subsidiaries. The Company’s underground and directional drilling operations install, replace and repair natural gas, petroleum, telecommunications and water pipeline systems, including large diameter pipeline systems. The Company’s industrial, civil and engineering operations build and provide maintenance services to industrial facilities including power plants, petrochemical facilities, and other processing plants; construct multi-level parking structures; and engage in the construction of highways, bridges and other environmental construction activities. The Company is incorporated in the State of Delaware, and its corporate headquarters is located at 2100 McKinney Avenue, Suite 1500, Dallas, Texas 75201.

Reportable Segments — As discussed in Note 19 — “Reportable Segments”, the Company segregates its business into three reporting segments: the West Construction Services segment (“West segment”), the East Construction Services segment (“East segment”) and the Energy segment (“Energy segment”).

The following table lists the Company’s primary operating subsidiaries and their reportable segment:

Subsidiary	Reportable Segment
ARB, Inc. (“ARB”)	West
ARB Structures, Inc.	West
Q3 Contracting, Inc. (“Q3C”)	West
Rockford Corporation (“Rockford”)	West
Vadnais Trenchless Services, Inc. (“Vadnais”)	West
Cardinal Contractors, Inc.	East
BW Primoris, LLC (“BWP”)	East
James Construction Group, LLC (“JCG”):	East
JCG Heavy Civil Division	East
JCG Infrastructure and Maintenance Division	East
Primoris Energy Services Corporation (“PES”)	Energy
PES Pipeline Services	Energy

PES Industrial Division	Energy
OnQuest, Inc.	Energy
OnQuest Canada, ULC	Energy
Primoris Aevenia, Inc. (“Aevenia”); acquired February 28, 2015	Energy

The Company owned 50% of the Blythe Power Constructors joint venture (“Blythe”) created for the installation of a parabolic trough solar field and steam generation system in California, and its operations have been included as part of the West segment. The project has been completed, the project warranty expired in May 2015 and dissolution of the joint venture was completed in the third quarter 2015.

The Company owns a 50% interest in two separate joint ventures, both formed in 2015 to engineer and construct gas-fired power generation facilities: Carlsbad Power Constructors joint venture (“Carlsbad”) and ARB Inc. & B&M Engineering Co. joint venture (“Wilmington”). Both projects are located in the Southern California area and both are expected to be completed in 2018. The joint venture operations are included as part of the West segment. As a result of determining that the Company is the primary beneficiary of the two variable interest entities (“VIE’s”), the results of the Carlsbad and Wilmington joint ventures are consolidated in the Company’s financial statements. Financial information for the joint ventures is presented in Note 11— “Noncontrolling Interests”.

On February 28, 2015, the Company acquired the net assets of Aevenia, Inc. for $22.3 million in cash, and established a new entity, Primoris Aevenia, Inc. (“Aevenia”), which operates as part of the Company’s Energy segment. Aevenia is an energy and electrical construction company that specializes in overhead and underground line work, substations, telecom/fiber, and certain other client-specific on-demand call out services. The majority of their work is delivered under unit-price Master Services Agreements (“MSAs”). Aevenia has operations in Minnesota, North Dakota, South Dakota and Iowa. On January 29, 2016, the Company acquired the net assets of Mueller Concrete Construction Company ("Mueller") for $4.1 million. Mueller operates as a division of Aevenia. See Note 7 — "Business Combinations".

Unless specifically noted otherwise, as used throughout these consolidated financial statements, "Primoris", "the Company", "we", "our", "us" or "its" refers to the business, operations and financial results of the Company and its wholly-owned subsidiaries.

Note 2—Basis of Presentation

Interim consolidated financial statements — The interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2016 and 2015 have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As such, certain disclosures, which would substantially duplicate the disclosures contained in the Company's Annual Report on Form 10-K, filed on February 29, 2016, which contains the Company's audited consolidated financial statements for the year ended December 31, 2015, have been omitted.

This Third Quarter 2016 Report should be read in concert with the Company's most recent Annual Report on Form 10-K. The interim financial information is unaudited. In the opinion of management, the interim information includes all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the interim financial information.

Revenue recognition

Fixed-price contracts — Historically, a substantial portion of the Company's revenue has been generated under fixed-price contracts. For fixed-price contracts, the Company recognizes revenues primarily using the percentage-of-completion method, which may result in uneven and irregular results. In the percentage-of-completion method, estimated contract values, estimated cost at completion and total costs incurred to date are used to calculate revenues earned. Unforeseen events and circumstances can alter the estimate of the costs and potential profit associated with a particular contract. Total estimated costs, and thus contract revenues and income, can be impacted by changes in productivity, scheduling, the unit cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, client needs, client delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project's completion and thus the timing of revenue recognition. To the extent that original cost estimates are modified, estimated costs to complete increase, delivery schedules are delayed, or progress under a contract is otherwise impeded, cash flow, revenue recognition and profitability from a particular contract may be adversely affected.

The Company considers unapproved change orders to be contract variations for which it has customer approval for a change in scope but for which it does not have an agreed upon price change. Costs associated with unapproved change orders are included in the estimated cost to complete and are treated as project costs as incurred. The Company recognizes revenue equal to costs incurred on unapproved change orders based on an estimated probability of realization from change order approval. Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated costs and recoverable amounts may be required in future reporting periods to reflect changes in estimates or final agreements with customers.

The Company considers claims to be amounts it seeks, or will seek, to collect from customers or others for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no agreement with customers on both scope and price changes. Claims are included in the calculation of revenues when realization is probable and amounts can be reliably determined. Revenue in excess of contract costs from claims is recognized when an agreement is reached with customers as to the value of the claims, which in some instances may not occur until after completion of work under the contract. Costs associated with claims are included in the estimated costs to complete the contracts and are treated as project costs when incurred.

Other contract forms — The Company also uses unit-price, time and material, and cost reimbursable plus fee contracts. For these jobs, revenue is recognized primarily based on contractual terms. For example, time and material contract revenues are generally recognized on an input basis, based on labor hours incurred and on purchases made. Similarly, unit price contracts generally recognize revenue on an output based measurement such as the completion of specific units at a specified unit price.

At any time, if an estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full at that time. The loss amount is recognized as an “accrued loss provision” and is included in the accrued expenses and other current liabilities amount on the balance sheet. For fixed price contracts, as the percentage-of-completion method is used to calculate revenues, the accrued loss provision is changed so that the gross profit for the contract remains zero in future periods. If we anticipate that there will be a loss for unit price or cost reimbursable contracts, the projected loss is recognized in full at that time.

Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and income. These revisions are recognized in the period in which the revisions are identified.

In all forms of contracts, the Company estimates its collectability of contract amounts at the same time that it estimates project costs. If the Company anticipates that there may be issues associated with the collectability of the full amount calculated as revenues, the Company may reduce the amount recognized as revenue to reflect the uncertainty associated with realization of the eventual cash collection. For example, when a cost reimbursable project exceeds the client’s expected budget amount, the client frequently requests an adjustment to the final amount. Similarly, some utility clients reserve the right to audit costs for significant periods after performance of the work. In these situations, the Company may choose to defer recognition of revenue up to the time that the client pays for the services.

The caption “Costs and estimated earnings in excess of billings” in the Consolidated Balance Sheet represents unbilled receivables which arise when revenues have been recorded but the amount will not be billed until a later date. Balances represent: (a) unbilled amounts arising from the use of the percentage-of-completion method of accounting which may not be billed under the terms of the contract until a later date or project milestone, (b) amounts arising from routine lags in billing, or (c) the revenue associated with unapproved change orders or claims when realization is probable and amounts can be reliably determined. For those contracts in which billings exceed contract revenues recognized to date, the excess amounts are included in the caption “Billings in excess of costs and estimated earnings”.

In accordance with applicable terms of certain construction contracts, retainage amounts may be withheld by customers until completion and acceptance of the project. Some payments of the retainage may not be received for a significant period after completion of our portion of a project. In some jurisdictions, retainage amounts are deposited into an escrow account.

Significant revision in contract estimate — Revenue recognition is based on the percentage-of-completion method for fixed-price contracts. Under this method, the costs incurred to date as a percentage of total estimated costs are used to calculate revenue. Total estimated costs, and thus contract revenues and margin, are impacted by many factors, which can cause significant changes in estimates during the life cycle of a project.

For projects that were in process at the end of the prior year or prior quarter there can be a difference in revenues and profits that would have been recognized in the prior year or prior quarter had current estimates of costs to complete been used at the end of the prior year or prior quarter.

Customer concentration — The Company operates in multiple industry segments encompassing the construction of commercial, industrial and public works infrastructure assets throughout primarily the United States. Typically, the top ten customers in any one calendar year generate revenues in excess of 50% of total revenues; however, the group that comprises the top ten customers varies from year to year.

During the three and nine months ended September 30, 2016, revenues generated by the top ten customers were approximately $272 million and $805 million, respectively, which represented 53.5% and 57.7%, respectively, of total revenues during the periods. During these respective periods, a Louisiana petrochemical project represented 10.3% and 11.6% of total revenues, respectively, and the Texas Department of Transportation (“TX DOT”) represented 7.9% and 10.4% of total revenues, respectively.

Table of Contents

During the three and nine months ended September 30, 2015, revenues generated by the top ten customers were approximately $325 million and $848 million, respectively, which represented 58.5% and 59.2%, respectively, of total revenues during the periods. During these periods, a large pipeline operator represented 6.7% and 10.3% of total revenues and TX DOT represented 9.9% and 10.0% of total revenues, respectively.

At September 30, 2016, approximately 15.4% of the Company's accounts receivable were due from one customer, and that customer provided 11.6% of the Company's revenues for the nine months ended September 30, 2016. In addition, of total accounts receivable, approximately 11.2% are currently in dispute resolution. See Note 18 – "Commitments and Contingencies".

At September 30, 2015, approximately 6.6% of the Company's accounts receivable were due from one customer, and that customer provided 7.9% of the Company's revenues for the nine months ended September 30, 2015. In addition, approximately 13.2% of total accounts receivable at September 30, 2015 were in dispute resolution. See Note 18 — "Commitments and Contingencies".

Multiemployer plans — Various subsidiaries in the West segment are signatories to collective bargaining agreements. These agreements require that the Company participate in and contribute to a number of multiemployer benefit plans for its union employees at rates determined by the agreements. The trustees for each multiemployer plan determine the eligibility and allocations of contributions and benefit amounts, determine the types of benefits and administer the plan. Federal law requires that if the Company were to withdraw from an agreement, it would incur a withdrawal obligation. The potential withdrawal obligation may be significant. In accordance with Generally Accepted Accounting Principles ("GAAP"), any withdrawal liability would be recorded when it is probable that a liability exists and can be reasonably estimated. In November 2011, the Company withdrew from the Central States, Southeast and Southwest Areas Pension Fund multiemployer pension plan, as discussed in Note 18 — "Commitments and Contingencies". The Company has no plans to withdraw from any other agreements.

Inventory and uninstalled contract materials — Inventory consists of expendable construction materials and small tools that will be used in construction projects and is valued at the lower of cost, using first-in, first-out method, or market. Uninstalled contract materials are certain job specific materials not yet installed, primarily for highway construction projects, which are valued using the specific identification method relating the cost incurred to a specific project. In most cases, the Company has been able to invoice a state agency for the materials, but title has not yet passed to the state agency.

Deferred tax classification on the statement of financial position — Deferred tax assets and liabilities are classified as non-current in a statement of financial position, reflecting a recent change required by ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" adopted by the Company at December 31, 2015. This change eliminates the need to analyze temporary differences to determine if deferred taxes should be reported as current or noncurrent. Past practice did not typically align with the time period in which deferred taxes were expected to be recovered or settled. For this reason, effective December 31, 2015 the Company classified all deferred tax assets and liabilities as a net non-current deferred tax asset.

Note 3—Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”, which has also had several clarifying updates issued during 2016. The new standard is effective for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption will require new qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, information about contract balances and performance obligations, and assets recognized from costs incurred to obtain or fulfill a contract. The guidance permits two implementation approaches, the “full retrospective method” that requires restatement of prior years and the “modified retrospective method” that requires prospective application of the new standard as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting the ASU on the Company’s financial position, results of operations, cash flows and related disclosures. The Company expects to adopt this new standard using the modified retrospective method that will result in a cumulative-effect adjustment as of the date of adoption.

Table of Contents

In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements — Going Concern (Subtopic 205-40)" to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when and how an entity must disclose certain relevant conditions and events. This update requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued). If such conditions or events exist, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions or events. The guidance is effective for annual and interim periods ending after December 15, 2016. The Company will adopt this guidance effective January 1, 2017.

In February 2015, the FASB issued ASU 2015-02 "Consolidation (Topic 810): Amendment to the Consolidation Analysis", which amends existing consolidation guidance, including amending the guidance related to determining whether an entity is a variable interest entity. The update is effective for interim and annual periods beginning after December 15, 2015. As of January 1, 2016, the Company adopted this ASU, which did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)". The ASU will require recognition of operating leases with lease terms of more than twelve months on the balance sheet as both assets for the rights and liabilities for the obligations created by the leases. The ASU will require disclosures that provide qualitative and quantitative information for the lease assets and liabilities recorded in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2018. The Company will establish procedures to adopt the ASU.

In March 2016, the FASB issued ASU 2016-09 "Compensation — Stock Compensation (Topic 718) — Improvements to Employee Share-Based Payment Accounting". The ASU modifies the accounting for excess tax benefits and tax deficiencies associated with share-based payments by requiring that excess tax benefits or deficiencies be included in the income statement rather than in equity. Additionally, the tax benefits for dividends on share-based payment awards will also be reflected in the income statement. As a result of these modifications, the ASU requires that the tax-related cash flows resulting from share-based payments will be shown on the cash flow statement as operating activities rather than as financing activities. This guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. Adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

Note 4—Fair Value Measurements

ASC Topic 820, “Fair Value Measurements and Disclosures” defines fair value, establishes a framework for measuring fair value in GAAP and requires certain disclosures about fair value measurements. ASC Topic 820 addresses fair value GAAP for financial assets and financial liabilities that are re-measured and reported at fair value at each reporting period and for non-financial assets and liabilities that are re-measured and reported at fair value on a non-recurring basis.

In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs use data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are “unobservable data points” for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

Table of Contents

The following table presents, for each of the fair value hierarchy levels identified under ASC Topic 820, the Company's financial assets and liabilities that are required to be measured at fair value at September 30, 2016 and December 31, 2015:

		Fair Value Measurements at Reporting Date		
	Amount Recorded on Balance Sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets as of September 30, 2016:				
Cash and cash equivalents	$ 148,667	$ 148,667	—	—
Goodwill	$ 123,445	$ —	—	$ 123,445
Liabilities as of September 30, 2016:				
None				
Assets as of December 31, 2015:				
Cash and cash equivalents	$ 161,122	$ 161,122	—	—
Goodwill	$ 126,161	$ —	—	$ 126,161
Liabilities as of December 31, 2015:				
None				

Other financial instruments of the Company not listed in the table consist of accounts receivable, accounts payable and certain accrued liabilities. These financial instruments generally approximate fair value based on their short-term nature. The carrying value of the Company's long-term debt approximates fair value based on comparison with current prevailing market rates for loans of similar risks and maturities.

As discussed in Note 8 — "Goodwill and Intangible Assets", during the third quarter 2016, the Company recorded a goodwill impairment operating charge of $2,716 as a result of the Company's plan to divest the Texas heavy civil business unit. The impairment is a Level 3 adjustment, since it is valued based on significant unobservable inputs, which are based primarily on discounted cash flow estimates for the JCG reporting unit.

Other than the impairment of goodwill and the remaining goodwill balances, there were no other Level 3 amounts as of September 30, 2016 and December 31, 2015; however, the following table provides changes to the Company's contingent consideration liability Level 3 fair value measurements during the nine months ended September 30, 2016 and 2015:

Significant Unobservable Inputs

	(Level 3) 2016	2015
Contingent Consideration Liability		
Beginning balance, January 1, 2016 and 2015	$ —	$ 6,922
Additions to contingent consideration liability:		
Change in fair value of contingent consideration liability during year	—	125
Reductions in the contingent consideration liability:		
Payment to Q3C sellers for meeting performance targets	—	(5,000)
Reduction due to non-attainment of performance target – Ram Fab and Vadnais	—	(596)
Ending balance, September 30, 2016 and 2015	$ —	$ 1,451

During each quarter in 2015, the Company assessed the estimated fair value of the contractual obligation to pay the contingent consideration and any changes in estimated fair value were recorded as other non-operating expense or income in the Company's statement of income for that period. Fluctuations in the fair value of contingent consideration were impacted by two unobservable inputs, management's estimate of the probability (which has ranged from 33% to 100%) of the acquired company meeting the contractual operating performance target and an estimated discount rate (a rate that approximates the Company's cost of capital). Significant changes in either of those inputs in isolation would result in a different fair value measurement. Generally, a change in the assumption of the probability of meeting the performance target is accompanied by a directionally similar change in the fair value of contingent consideration liability, whereas a change in assumption used of the estimated discount rate is accompanied by a directionally opposite change in the fair value of contingent consideration liability.

Table of Contents

Note 5—Accounts Receivable

The following is a summary of the Company’s accounts receivable:

	September 30, 2016	December 31, 2015
Contracts receivable, net of allowance for doubtful accounts of $490 at September 30, 2016 and $480 at December 31, 2015, respectively	$ 259,561	$ 288,300
Retention receivable	32,878	31,396
	292,439	319,696
Other accounts receivable	1,056	892
	$ 293,495	$ 320,588

Note 6—Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consist of the following:

	September 30, 2016	December 31, 2015
Costs incurred on uncompleted contracts	$ 4,833,755	$ 5,413,224
Gross profit recognized	395,630	625,280
	5,229,385	6,038,504
Less: billings to date	(5,171,285)	(6,061,924)
	$ 58,100	$ (23,420)

This amount is included in the accompanying consolidated balance sheets under the following captions:

	September 30,	December 31,

	2016	2015
Costs and estimated earnings in excess of billings	$ 156,391	$ 116,455
Billings in excess of cost and estimated earnings	(98,291)	(139,875)
	$ 58,100	$ (23,420)

Note 7 — Business Combinations

On February 28, 2015, the Company acquired the net assets of Aevenia, Inc. for $22.3 million in cash, and established a new entity, Primoris Aevenia, Inc. (“Aevenia”). The acquisition provides electrical construction expertise for the Company and provides a greater presence and convenient access to the central plains area of the United States. The purchases were accounted for using the acquisition method of accounting. The assets were purchased for their estimated fair value and included current assets, current liabilities, plant and equipment, intangible assets and goodwill.

On January 29, 2016, the Company’s subsidiary, Aevenia, acquired certain assets and liabilities of Mueller Concrete Construction Company ("Mueller") for $4.1 million. The purchase was accounted for using the acquisition method of accounting. During the second quarter of 2016, the Company finalized its estimate of fair value of the acquired assets of Mueller, which included $2.0 million of fixed assets, $2.0 million of goodwill and $0.1 million of inventory. Mueller operates as a division of Aevenia. Goodwill largely consists of expected benefits from providing foundation expertise for Aevenia’s construction efforts in underground line work, substations and telecom/fiber. Goodwill also includes the value of the assembled workforce that the Mueller acquisition provides to the Aevenia business. Based on the current tax treatment, goodwill and other intangible assets will be deductible for income tax purposes over a fifteen-year period.

On June 24, 2016, the Company’s subsidiary, Vadnais, purchased property, plant and equipment from Pipe Jacking Unlimited, Inc., consisting of specialty directional drilling and tunneling equipment for $13.4 million in cash. The Company determined this purchase did not meet the definition of a business as defined under ASC 805. The estimated fair value of the equipment was equal to the purchase price. The Company believes the purchase of the equipment will aid in the Company’s pipeline construction projects and enhance the work provided to our utility clients.

Table of Contents

Supplemental Unaudited Pro Forma Information for the three and nine months ended September 30, 2016 and 2015

The following pro forma information for the three and nine months ended September 30, 2016 and 2015 presents the results of operations of the Company as if the 2016 Mueller acquisition and the 2015 Aevenia acquisition had occurred at the beginning of 2015. The supplemental pro forma information has been adjusted to include:

· the pro forma impact of amortization of intangible assets and depreciation of property, plant and equipment, based on the purchase price allocations; and

· the pro forma tax effect of both the income before income taxes and the pro forma adjustments, calculated using a tax rate of 40.0% for the three and nine months ended September 30, 2016 and the same period in 2015.

The pro forma results are presented for illustrative purposes only and are not necessarily indicative of, or intended to represent, the results that would have been achieved had the various acquisitions been completed on January 1, 2015. For example, the pro forma results do not reflect any operating efficiencies and associated cost savings that the Company might have achieved with respect to the Mueller or Aevenia acquisition.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Revenues	$ 507,828	$ 557,020	$ 1,395,443	$ 1,438,493
Income before provision for income taxes	$ 8,834	$ 30,903	$ 22,274	$ 38,539
Net income attributable to Primoris	$ 4,504	$ 19,043	$ 12,297	$ 23,669
Weighted average common shares outstanding:				
Basic	51,780	51,672	51,759	51,637
Diluted	52,034	51,824	51,978	51,789
Earnings per share:				
Basic	$ 0.09	$ 0.37	$ 0.24	$ 0.46
Diluted	$ 0.09	$ 0.37	$ 0.24	$ 0.46

Note 8—Goodwill and Intangible Assets

Goodwill was recorded as follows:

Reporting Unit	Segment	September 30, 2016	December 31, 2015
Rockford	West	$ 32,079	$ 32,079
Q3C	West	13,160	13,160
JCG	East	40,150	42,866
PES	Energy	28,463	28,463
OnQuest Canada, ULC	Energy	2,441	2,441
Aevenia	Energy	7,152	5,152
Total Goodwill		$ 123,445	$ 124,161

As discussed in Note 20 — "Planned Divestiture of Texas Heavy Civil Business Unit", during the third quarter 2016, the Company made a decision to divest its Texas heavy civil business unit, a division of JCG within the East Construction Services segment. The Company will continue to operate the division while actively seeking a buyer. In accordance with the provisions of ASC 350, the planned divestiture required a valuation of the goodwill recorded on the JCG books. The analysis of goodwill in the JCG reporting unit resulted in a pretax, non-cash goodwill impairment charge of approximately $2.7 million.

Table of Contents

At September 30, 2016 and December 31, 2015, intangible assets totaled $31,423 and $36,438, respectively, net of amortization. The table below summarizes the intangible asset categories, amounts and the average amortization periods, which are on a straight-line basis, as follows:

	Amortization Period	September 30, 2016	December 31, 2015
Tradename	3 to 10 years	$ 12,518	$ 15,019
Non-compete agreements	2 to 5 years	1,054	1,424
Customer relationships	3 to 15 years	17,851	19,995
		$ 31,423	$ 36,438

Amortization expense of intangible assets was $1,766 and $1,712 for the three months ended September 30, 2016 and 2015, respectively, and amortization expense for the nine months ended September 30, 2016 and 2015 was $5,015 and $5,082, respectively. Estimated future amortization expense for intangible assets is as follows:

For the Years Ending December 31,	Estimated Intangible Amortization Expense
2016 (remaining three months)	$ 1,607
2017	6,165
2018	5,719
2019	5,511
2020	3,112
Thereafter	9,309
	$ 31,423

Note 9—Accounts Payable and Accrued Liabilities

At September 30, 2016 and December 31, 2015, accounts payable amounted to $134,486 and $124,450, respectively. These balances included retention amounts for the same periods of approximately $9,919 and $8,375, respectively. The retention amounts are due to subcontractors and have been retained pending contract completion and customer acceptance of jobs.

The following is a summary of accrued expenses and other current liabilities:

	September 30, 2016	December 31, 2015
Payroll and related employee benefits	$ 36,499	$ 33,358
Insurance, including self-insurance reserves	46,003	44,695
Reserve for estimated losses on uncompleted contracts	15,487	7,261
Corporate income taxes and other taxes	6,097	2,447
Accrued administrative cost	2,975	1,415
Other	4,412	4,420
	$ 111,473	$ 93,596

Note 10—Credit Arrangements

Long-term debt and credit facilities consist of the following:

Commercial Notes Payable and Mortgage Notes Payable

From time to time, the Company enters into commercial equipment notes payable with various equipment finance companies and banks. Interest rates range from 1.78% to 3.51% per annum and maturity dates range from November 30, 2016 to September 24, 2021. The notes are secured by certain construction equipment of the Company.

Table of Contents

The Company also entered into two secured mortgage notes payable to a bank in December 2015, with interest rates of 4.3% per annum and maturity dates of January 1, 2031. The mortgage notes are secured by two buildings.

Revolving Credit Facility

As of September 30, 2016, the Company had a revolving credit facility, as amended on December 12, 2014 (the "Credit Agreement") with The PrivateBank and Trust Company, as administrative agent (the "Administrative Agent") and co-lead arranger, The Bank of the West, as co-lead arranger, and IBERIABANK Corporation, Branch Banking and Trust Company and UMB Bank, N.A. (the "Lenders"). The Credit Agreement is a $125 million revolving credit facility whereby the Lenders agreed to make loans on a revolving basis from time to time and to issue letters of credit for up to the $125 million committed amount. The termination date of the Credit Agreement is December 28, 2017.

The principal amount of any loans under the Credit Agreement will bear interest at either: (i) LIBOR plus an applicable margin as specified in the Credit Agreement (based on the Company's senior debt to EBITDA ratio as that term is defined in the Credit Agreement), or (ii) the Base Rate (which is the greater of (a) the Federal Funds Rate plus 0.5% or (b) the prime rate as announced by the Administrative Agent). Quarterly non-use fees, letter of credit fees and administrative agent fees are payable at rates specified in the Credit Agreement.

The principal amount of any loan drawn under the Credit Agreement may be prepaid in whole or in part, with a minimum prepayment of $5 million, at any time, potentially subject to make-whole provisions.

The Credit Agreement includes customary restrictive covenants for facilities of this type, as discussed below.

Commercial letters of credit outstanding were $17,118 at September 30, 2016 and $12,105 at December 31, 2015. Other than commercial letters of credit, there were no borrowings under this line of credit during the nine months ended September 30, 2016, and available borrowing capacity at September 30, 2016 was $107,882.

Senior Secured Notes and Shelf Agreement

On December 28, 2012, the Company entered into a $50 million Senior Secured Notes purchase ("Senior Notes") and a $25 million private shelf agreement (the "Notes Agreement") by and among the Company, The Prudential Investment Management, Inc. and certain Prudential affiliates (the "Noteholders"). On June 3, 2015, the Notes Agreement was amended to provide for the issuance of additional notes of up to $75 million over the three year period ending June 3, 2018 ("Additional Senior Notes").

The Senior Notes amount was funded on December 28, 2012. The Senior Notes are due December 28, 2022 and bear interest at an annual rate of 3.65%, paid quarterly in arrears. Annual principal payments of $7.1 million are required from December 28, 2016 through December 28, 2021 with a final payment due on December 28, 2022. The principal amount may be prepaid, with a minimum prepayment of $5 million, at any time, subject to make-whole provisions.

On July 25, 2013, the Company drew $25 million available under the Notes Agreement. The notes are due July 25, 2023 and bear interest at an annual rate of 3.85%, paid quarterly in arrears. Seven annual principal payments of $3.6 million are required from July 25, 2017 with a final payment due on July 25, 2023.

On November 9, 2015, the Company drew $25 million available under the Additional Senior Notes Agreement. The notes are due November 9, 2025 and bear interest at an annual rate of 4.6%, paid quarterly in arrears. Seven annual principal payments of $3.6 million are required from November 9, 2019, with a final payment due on November 9, 2025.

Loans made under both the Credit Agreement and the Notes Agreement are secured by our assets, including, among others, our cash, inventory, goods, equipment (excluding equipment subject to permitted liens) and accounts receivable. All of our domestic subsidiaries have issued joint and several guaranties in favor of the Lenders and Noteholders for all amounts under the Credit Agreement and Notes Agreement.

Both the Credit Agreement and the Notes Agreement contain various restrictive and financial covenants including, among others, minimum tangible net worth, senior debt/EBITDA ratio, debt service coverage requirements and a minimum balance for unencumbered net book value for fixed assets. In addition, the agreements include restrictions on investments, change of control provisions and provisions in the event the Company disposes more than 20% of its total assets.

Table of Contents

The Company was in compliance with the covenants for the Credit Agreement and Notes Agreement at September 30, 2016.

Canadian Credit Facility

The Company has a demand credit facility for $8,000 in Canadian dollars with a Canadian bank for purposes of issuing commercial letters of credit in Canada. The credit facility has an annual renewal and provides for the issuance of commercial letters of credit for a term of up to five years. The facility provides for an annual fee of 1% for any issued and outstanding commercial letters of credit. Letters of credit can be denominated in either Canadian or U.S. dollars. At September 30, 2016 and December 31, 2015, letters of credit outstanding totaled $1,624 and $2,179 in Canadian dollars, respectively. At September 30, 2016, the available borrowing capacity was $6,376 in Canadian dollars. The credit facility contains a working capital restrictive covenant for our Canadian subsidiary, OnQuest Canada, ULC. At September 30, 2016, OnQuest Canada, ULC was in compliance with the covenant.

Note 11 — Noncontrolling Interests

The Company owns a 50% interest in two separate joint ventures, each of which has been determined to be a variable interest entity ("VIE"), and the Company was determined to be the primary beneficiary in each as a result of its significant influence over the joint venture operations.

Each joint venture is a partnership, and consequently, no tax effect was recognized for the income attributable to the noncontrolling interests. The net assets of the joint ventures are restricted for use by the specific project and are not available for general operations of the Company.

The Carlsbad joint venture operating activities began in September 2015 and are included in the Company's consolidated statements of income as follows: